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TAGS: [ENRG](#) [EINV](#) [EPET](#) [CO](#)
SUBJECT: IS COLOMBIA READY FOR THE PARTIAL PRIVATIZATION OF
ECOPETROL?

Classified By: DCM Milton Drucker for reasons 1.4(b) and (d)

1.(C) Summary: Seeking easier access to capital for exploration and international ventures, the GOC is requesting authorization from Congress to sell shares in up to 20 percent of Colombia's national oil company, Ecopetrol. The GOC expects the sale to generate up to USD 1 billion, allowing the parastatal to bypass the complicated Colombian budget process for projects related to the company's exploration plan. Sensitive to popular concerns regarding potential international involvement in the parastatal, the GOC is working with Congress to restrict ownership of the privatized shares to Colombian citizens and companies. The GOC expects congressional approval of the partial privatization by the end of 2006. End summary.

12. (C) Shortly after the privatization plan was announced, Isaac Yannovich, President of Ecopetrol, told the DCM and Econoff that Ecopetrol had fallen behind its competitors in the development of new oil/gas fields as a result of Congressional reluctance to release funds to the company for exploration. The company needs a dependable source of exploration capital, Yannovich explained, adding that partial privatization could generate an estimated USD 1 billion in unrestricted new capital. It is likely Ecopetrol would leverage the new funds for additional resources through bonds or loans secured with the private capital.

13. (C) The GOC is very concerned about public perception of the partial privatization. Initial deliberations with Congress have centered on the ability of the government to restrict ownership of Ecopetrol shares to Colombian pension funds or holding companies (allowing the participation of Colombian citizens and the Colombian private sector) through a special class of stock with limited transferability. Press reports indicate the GOC and Colombia's Congress expect to fully exclude foreign participation of any kind in the partial privatization of Ecopetrol. (Note: while it is too early to tell if this restriction would raise national treatment issues under the pending FTA or other agreements between the U.S. and Colombia, post will follow this angle closely.)

14. (C) Laboff reports Ecopetrol's union, the Union Sindical Obrera (USO), is calling for a national strike in September to stop the privatization plan, believing the proposal is the first step toward foreign control of the national oil company. The USO, which has alleged ties to guerrilla groups, held a one day work stoppage on August 3rd, to protest the move. Yannovich, aware of union resistance to the privatization, told DCM he expects some form of strike as plans are finalized for the partial privatization, but recent successful contract negotiations with the union offer optimism for a resolution acceptable to all parties.

15. (C) Comment: Working to make Ecopetrol behave more like a private company has been a constant goal of the Uribe administration. Regulatory reform in 2003 removed Ecopetrol from the process of granting block concessions, and, as part of the recently negotiated free trade agreement with the U.S., the company's procurement regime is also moving toward an open market approach. While the full privatization of Ecopetrol may be politically unrealistic at this time, bringing the private sector on as part owners will also tend to make management more interested in efficiency. Access to capital that is not subject to congressional restrictions is another step in Ecopetrol's evolution toward making the company a more efficient participant in the region's energy sector.

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